ASSESSMENT OF THE IMPACTS OF THE CANADA-U.S. FREE TRADE AGREEMENT ON THE ONTARIO AGRICULTURE AND FOOD SECTOR

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EXECUTIVE SUMMARY

On December 11, 1987 the federal government released the final legal text of the Canada-U.S. Free Trade Agreement. A number of the provisions of the Agreement will have implications for Ontario's agriculture and food sector. The objective of this paper is to outline the agriculturally related provisions of the Agreement and to preliminarily assess these provisions as they impact on Ontario's agriculture and food sector.

The provisions of the Agreement that will have the most impact on Ontario's agriculture and food sector are: tariff elimination; changing provincial Liquor Board practices on wine; obtaining an exemption from the U.S. Meat Import Act; the expansion of global import quotas for poultry and eggs; and minimizing the trade distortions caused by technical regulations.

In the assessment section of the paper, the impact of the Agreement is estimated for the agriculture and food sector. In terms of farm income, Ontario's agriculture and food sector stands to lose on balance $95 million per year. Additional costs could arise from falling asset values, particularly land values in the Niagara region. The fruit and vegetable producers will be hurt the most, with grape growers the most adversely impacted. The only commodity group that is likely to benefit is livestock and red meat.

The actual implementation of the Agreement is an area of great uncertainty. There are many issues where information on implementation is needed. These areas include the snapback tariff provisions for fresh vegetables and fruit, the future of the two-price wheat policy, and the process for adding processed poultry and dairy products to the Import Control List.

The area of adjustment assistance is critical, but to date the federal government has not indicated their level of assistance. Fruit and vegetables, particularly grapes/wine, are the industries that will likely face the most adjustment problems. The issue of adjustment assistance needs to be clarified so that federal and provincial responsibilities and commitments are known.

I. INTRODUCTION

On October 4, 1987, Canada and the U.S. reached an accord on the principles of a bilateral Free Trade Agreement. As a result of subsequent bilateral talks a legal text was developed based on these principles. Released by the federal government on December 11, 1987, this legal text represents a formal and detailed description of the proposed Free Trade Agreement between Canada and the U.S. which is aimed at enhancing and securing bilateral trade. On January 2, 1988, Prime Minister Mulroney and U.S. President Ronald Reagan signed the Agreement, which still has to be approved by the House of Commons and U.S. Congress.

The terms and conditions of the Agreement are set forth in the document entitled "The Canada-U.S. Free Trade Agreement" (1). The legal document elaborates and clarifies the elements of the Agreement that were negotiated. In addition to the legal text of the Agreement, a synopsis and explanatory notes were provided jointly by the Government of Canada and the U.S. Administration. In general, the legal text is laid out according to horizontal issues, such as the dispute settling mechanism. These provisions will apply to most bilaterally traded products. Also, it is understood that during the negotiations certain sectors did not lend them- selves well to the format of a broad and comprehensive Agreement. Accordingly, sector specific provisions were achieved to bring these industries into the broad scope of the Agreement. The agriculture, wine and spirits, energy and automotive sectors all fall into this category. Specific provisions covering these areas are set out in separate chapters.

The agriculture chapter lays out specific guidelines on how certain trade related policies will be adjusted or eliminated. The objective of this paper is to outline the agriculturally related provisions of the Agreement and to assess these provisions as they will impact on the Ontario agriculture and food sector.

This paper is comprised of four parts. The first provides a broad evaluation of the provisions that will markedly affect agriculture if the Agreement is implemented. The extent to which these provisions would affect domestic policies is varied. Although no agreement was reached on disciplines in the use or delivery of domestic

agriculture policies, certain changes to trade related polices do have implications for some existing domestic policies. This section of the paper identifies these areas and discusses some of the domestic policy implications.

The second part contains a preliminary impact analysis, providing a broad assessment of some of the major costs and benefits of the Agreement for the agriculture and food industries. It should be noted that the impact analysis is based on the assumption that the Canada-U.S. dollar exchange rate is a function of such economic factors as inflation rates, interest rates and changes in gross national product. A general discussion follows in the third part with emphasis on the issues of adjustment and adjustment assistance. General views and concerns are raised in the summary and conclusions in the fourth and last part.

II. AGRICULTURALLY RELATED PROVISIONS

Canada and the U.S. have reached agreement on specific issues related to trade in agriculture and food products. Many of these provisions cover all trade in agriculture and food products. However, some are designed to address the specific characteristics of particular industries. This section of the paper provides a detailed description of these provisions and introduces the broad impacts that may stem from implementation of the Agreement.

Article 401: Tariff Elimination

Canada and the U.S. have agreed to eliminate all tariffs over a period of ten years. This includes seasonal tariffs for fresh fruit and vegetables, tariffs on supply-managed commodities and tariffs on all processed products and raw agricultural commodities. Annex 401.2 of the legal text provides details on which agricultural tariffs fall into the immediate, five-year and ten-year categories for elimination. The number of Canadian and U.S. agricultural tariffs that fall into each category are provided on the next page.

Tariff Elimination: Number of Canadian and U.S. Agriculture and Food Tariff Items to be Removed, by Staging Category

		Tariff Items	
		Canada	United States
		- number -	
A:	Immediate elimination (Jan. 1, 1989)	23	81
B:	Elimination over 5 years	39	88
C:	Elimination over 10 years	558	716
	Total agriculture tariffs to be eliminated ...	620	885
D:	Currently free	358	241
Total agriculture tariffs		978	1,126

Source: Canada-U.S. Free Trade Agreement.

A full listing of Canadian and U.S. tariffs that fall into the category of immediate elimination is provided in Appendices I and II of this document.

Tariff elimination for processed fruit and vegetable products is expected to exert downward pressure on prices received by growers. The bargaining power of provincial marketing boards when negotiating prices with processors will be somewhat weaker. Growers of fruit and vegetables for processing are unlikely to benefit from the special tariff snapback provision since this safeguard does not apply to processed fruit and vegetables (Article 702, page 5).

The removal of tariffs on processed products has placed certain dairy and poultry products in a rather precarious position. (It is recognized that the supply management systems for milk and poultry products have remained virtually intact. This will be expanded upon later.) However, there may be significant implications for processors manufacturing products such as ice cream and yogurt, and further poultry products such as frozen dinners and chicken cordon bleu. Tariff elimination on imports from the U.S. in the presence of higher-priced domestic raw milk and poultry could seriously alter the competitive position of processors in the domestic market.

To address the situation of increased imports of these products, Canada has retained the right to place these processed products under the protection of the quantitative restrictions of the Import Control List. While this recourse could be effective in preventing any adverse impacts on these Ontario industries, few details are yet available on the conditions required to activate the process.

For instance, it is understood that monitoring imports of further processed poultry products does not cover individual products such as frozen dinners. In situations where Ontario firms are already competing directly with specific U.S. product lines, customs monitoring will have to be designed to react to any marginal change in import levels on a product by product basis. No confirmation has yet been received from the federal government that import monitoring will be enhanced toward this level of sensitivity.

A similar problem exists for Canadian wheat-using industries. These industries face the loss of tariffs on bakery products, and yet these industries are required to pay higher prices for domestic wheat under Canada's two-price wheat system. The federal government has indicated that the two-price wheat system may be removed. However, this raises the question of producer compensation, especially for eastern Canadian producers who are proportionately more dependent on the benefits of the two-price system than western wheat producers. The federal government has not released any details of producer compensation in this regard.

Article 701: Agricultural Subsidies

Canada and the U.S. have agreed on the goal of eliminating, on a global basis, all subsidies which distort agricultural trade. It was also agreed to work together to achieve this goal through the multilateral trade negotiations. This commitment recognizes that Canada and the U.S. are unable through this Agreement to eliminate or even reduce subsidies on a bilateral basis. The issue of subsidies has been left to the multilateral trade negotiations, which are still in the early stages. Both Canada and the U.S. have tabled ideas at the General Agreement on Tariffs and Trade (GATT) meetings for negotiating agricultural trade where the elimination of subsidies is emphasized.

Canada and the U.S. have agreed not to use direct export subsidies on bilaterally traded agricultural products. At the current time, neither country uses direct subsidies as a means of facilitating exports to the other country. However, the dairy and egg industries have some concerns regarding producer financed exports. (This issue will be expanded upon in the next part.)

Canada and the U.S. have also agreed to take into account each other's export interests when using any export subsidy on agriculture and food trade with third countries. Under this provision, there is no commitment to consult prior to the granting of export subsidies to shared markets. It is uncertain whether or not this provision, if implemented, would have prevented the recent use by the U.S. of its Export Enhancement Program (EEP) subsidies on grains and oilseeds and their products to Japan, India, China and Russia. These are traditional markets for Canadian wheat exporters.

Canada has agreed to eliminate the payment of subsidies under the Western Grain Transportation Act on agricultural products shipped to the U.S. through western Canadian ports. This will likely affect Canadian exports of millfeeds and rapeseed meal to the Northwestern States. Ontario industries will be unaffected by this provision.

Article 702: Special Provisions for Fresh Fruit and Vegetables

In order to provide temporary protection for fresh fruit and vegetables, a conditional "snapback" mechanism is available as a safeguard which can be used to restore seasonal tariffs to the most favored nation (MFN) rates.

The conditions that must be met to trigger the snapback mechanism are twofold. First, product prices must be depressed - defined as below 90 percent of the previous five-year average import price, excluding the high and low values. Second, the current year's acreage cannot exceed that of the previous five years with the highest and lowest values excluded. Products on a national or regional basis on either side of the border that meet these two conditions qualify for relief from imports under the protection of a duty involved at the lesser of either the pre-Agreement (MFN) seasonal rate or the MFN duty in effect at the time the snapback is triggered. This

recourse is available for individual commodities once a year, for 20 years, following implementation of the Agreement. Commodities for which it is shown that acreage has increased do not qualify for any relief. Acreage moving out of grape production into other fruit and vegetables will be exempt from snapback calculations for these products.

In addition, the text indicates that for each commodity the tariff snapback can only be used once per year for a maximum of 180 days. The text also states that the tariff shall be removed when import prices for five consecutive days have exceeded the 90 percent price condition. Before the tariffs can be reintroduced, two day's notice has to be given.

In general, the Ontario fresh fruit and vegetable industries are skeptical about the feasibility of the snapback provision. To be effective the tariffs would have to be reinstated as quickly as possible. For certain commodities, peaches for instance, relief from imports would be required as soon as the snapback conditions were met because of the short length of the marketing season. This concern applies to any commodity for which serious market disruption can occur - possibly as little as two or three days subsequent to any large U.S. shipment.

Article 703: Market Access for Agriculture

Canada and the U.S. have agreed to work together to improve access to each other's markets through the elimination of import barriers. This good intentions clause is compatible with the general goal of the commitment made in agriculture to facilitate trade in agricultural goods.

Article 704: Market Access for Meat

Canada and the U.S. have agreed to exempt each other from the quantitative restrictions under their meat import laws. This provision will go some way toward securing the U.S. market for Canadian beef producers. Accordingly, an already North American market in red meats will be enhanced. Beef producers and processors see this provision as a positive gain in the form of reduced risk of U.S. protectionism.

One exception to this provision is the case where import restrictions are imposed on imports from a third country and the other country does not take the same action. If this provision had not been included, the import controls against third countries could have been circumvented through increased bilateral trade. This Agreement on meat import control exemptions will be welcomed by livestock producers and meat packers.

Article 705: Market Access for Grain and Grain Products

Canada has agreed to eliminate import licences for wheat, barley and oats, and related products on the condition that the support levels for these products in Canada and the U.S. are equivalent. Equivalence would be determined according to Annex 705.4 of the Agreement which outlines the procedure for calculating and comparing support levels. The use of end-use certificates in Canada provides for the maintenance of the quality grading system for grains.

Under this provision, it is likely that import licences for barley and oats would be removed upon entry into force of the Agreement. For wheat, support levels are relatively higher in the U.S. Still, the possibility that licences for wheat imports could be removed puts further pressure on the federal government to remove the two-price wheat policy and to provide adequate compensation to wheat producers.

Both parties have agreed not to impose or reimpose any quantitative restrictions on grain and grain products, provided there are no significant changes to grain support programs that would lead to a significant change in imports of the other party. This provision essentially prevents Canada from reimposing import licences on grains and related products subsequent to their removal, unless support levels in the two countries diverge significantly. Similarly, the Agreement prevents the U.S. from invoking Section 22 to control imports, unless there is a wide difference in support levels.

Article 706: Market Access for Poultry and Eggs

Under this provision Canada has agreed to increase global import quotas for poultry and eggs, and products thereof. The new quotas should approximate the average actual imports (global plus supplementals) during the past five years.

For chicken producers, global import quotas will increase from 6.3 percent of domestic production to 7.5 percent. For turkey, import quotas will increase from 2.0 to 3.5 percent of domestic production. Essentially these increases reduce the domestic producer's market share of the Canadian market. Import quotas for shell eggs have risen from 0.675 to 1.647 percent of domestic shell egg production; from 0.415 to 0.714 percent of domestic shell egg production for liquid, frozen and further processed eggs; and from 0.615 to 0.627 percent of domestic shell egg production for powdered eggs. Ontario poultry and egg producers view these increases as undermining the ability of domestic producers to balance supply with domestic demand. Imports could grow to more than this level since the system of supplementary import licences, administered by the Department of External Affairs, has been retained.

The general purpose of these increases is to assist domestic processors of certain poultry products (e.g., frozen dinners) who will face tariff elimination on their products. Poultry producers and processors believe that these increases will not be sufficient to compensate for lost tariffs.

The federal government has indicated that it has retained the right to put these processed chicken products on the Import Control List, if increased imports (due to tariff removal) result in injury to domestic processors. However, many questions remain concerning how the imports of these products will be monitored. Currently, tariff classifications for these products are not broken down to product by product levels. Notwithstanding this, industry representatives feel these products should be placed on the Import Control List immediately. Some processors are already facing fierce competition with U.S. products in Canadian markets. They feel that competing U.S. products will have established a sizable market share before any action could be taken.

Article 707: Market Access for Sugar Containing Products

Under this provision the U.S. has agreed to exempt Canada from any quantitative restrictions on imports from Canada of sugar containing products which have 10 percent sugar or less by dry weight. This Agreement essentially maintains the status quo regarding U.S. quantitative restrictions on these products.

Article 708: Technical Regulations and Standards for Agricultural, Food, Beverage and Certain Related Goods

Both Canada and the U.S. have agreed to minimize technical barriers to trade in agriculture and food products. This commitment takes the form of a set of four general principles and the establishment of eight working groups (e.g., Animal Health, Pesticides). None of the details set out in the legal text were included in the Elements document. However, federal government officials had indicated the general content of this section to the provinces.

A common feature of the terms of reference for the working groups is the statement "work toward". This general commitment to work together to minimize technical barriers to trade is accompanied with a number of specific commitments:

a) The U.S. has agreed not to prohibit imports of livestock from disease-free regions of Canada. Currently the U.S. takes a national approach;

b) Canada has agreed to a simpler testing procedure to prevent bluetongue from being introduced by imports of U.S. cattle;

c) Canada has agreed to allow imports of U.S. live hogs for slaughter under still to be agreed procedures and conditions to prevent the introduction of pseudorabies; and

d) Canada and the U.S. have accepted as equivalent each other's inspection systems or certification procedures for meat, poultry, and eggs. This commitment means that Canadian exporters will not face the U.S. border inspection procedures for meat that were about to be implemented.

The U.S. has agreed to accept the use of the term "canola oil" as equivalent to "low erucic acid rapeseed oil". This will be welcomed by the Prairie provinces.

It is important that in applying these provisions Canada not accept the lowering of Canadian federal and provincial health and quality standards. For example, Ontario has expressed strong concerns that the health of Canadian swine may be placed at risk, pending an agreement on new procedures to test for pseudorabies. Furthermore, it is imperative from the view of Canadian crop and livestock production and processing that regional arrangements do not pose a threat to the health standards of other regions of the country.

Article 709: Consultations

Canada and the U.S. have agreed to meet on a semi-annual basis to discuss agriculture trade-related issues. These provisions formalize the semi-annual consultations that have been occurring in recent years. It is expected that these consultations will be helpful in monitoring the gradual implementation of the Agreement and as an ongoing process of information exchange.

Article 710: International Obligations

Both parties have retained their GATT rights and obligations with respect to issues not provided for in the Agreement. Under this provision, Canada has retained its right under Article XI of the GATT to extend to related products, the import restrictions that support its supply-managed industries. Canada also retains the right to implement new supply-management programs.

Articles: 801-808: Wine and Distilled Spirits

Canada agreed to end certain discriminatory practices of the provincial Liquor Boards in this chapter of the Agreement. Beer and malt-containing beverages are not covered by this Agreement. The practices in question cover product listing, pricing, distribution, and blending. If these provisions are implemented, the wine mark-up differential between the products of Canada and the U.S. will be eliminated over seven years with 50 percent of the reduction occurring in the first 366 days. This front-end loaded phasing out of mark-up differentials provides an inadequate period

to adjust, in the view of wineries and grape growers. Grape growers will be impacted even before the trade Agreement is scheduled to take effect on January 1, 1989, since wineries will begin to reduce purchases starting with the 1988 crop.

The Agreement contains a number of grandfathering provisions that will allow certain listing and distribution practices to continue. For example, private wine store outlets in Ontario and B.C., automatic listing for B.C. estate wineries, along with the Province of Quebec requirements for in-province bottling of product sold in grocery stores, will be grandfathered.

Article 1101: Emergency Action

During the transition period of the Agreement (i.e., until the end of 1998), Canada and the U.S. have the right to impose temporary restrictions on imports from the other country that are seriously injuring domestic producers and which are the result of tariff decline. Import restrictions such as quotas or surcharges, once imposed, can remain in place for a maximum of three years. As is the case under the GATT, the country that takes emergency or safeguard action may be required to pay compensation.

After the transition period both countries can only take emergency action with the consent of the other country. Canada and the U.S. have also agreed to exempt each other from global safeguard actions. There is one exception, in the case where imports from the other country are an important contributor to the injury caused by imports from all countries. This provision will prevent Canadian producers from being sideswiped by U.S. import restrictions aimed at other countries.

Articles 1801-1808: Institutional Arrangements

Articles 1801-1808 establish the institutional provisions for the joint management of the Agreement to avoid and settle any disputes. The basic mechanism is mandatory notification of new measures, consultations, and referral to a Canada-U.S. Trade

Commission. However, if the dispute continues, then three forms of dispute settlement procedures are available. These are: i) binding settlement of disputes over emergency trade actions (Article 1103); ii) mutually agreed binding arbitration; and iii) recommendatory panel procedures.

Articles 1901-1911: Binational Dispute Settlement in Anti-Dumping and Countervailing Duty Cases

Canada and the U.S. have agreed to a number of provisions dealing with the use of countervailing and anti-dumping duties between the two countries. In Article 1902, Canada and the U.S. retain the right to apply countervailing duty and anti-dumping laws. However, under Article 1904, the judicial review by domestic courts of countervailing and anti-dumping final orders is replaced by a binational panel which will determine whether existing laws were applied correctly and fairly. A number of small steps were taken aimed at harmonizing the trade remedy laws in both countries. Canada and the U.S. have the right to review any changes in existing countervailing or anti-dumping laws for consistency with the GATT. This essentially replaces the U.S. Court of International Trade, which Canada had not viewed as being biased, with a binational panel. In Article 1907, Canada and the U.S. have agreed to work towards establishing a new regime to address problems of dumping and subsidization by the end of five years, with the possibility of a two-year extension.

Since no agreement was reached on the use of domestic subsidies, a rigorous agreement governing trade legislation could not be forged. Accordingly, while virtual freedom exists to implement domestic subsidy programs for agriculture and food industries in either country, bilateral exports will still be subject to the respective Canadian and U.S. trade laws, including countervail actions. No assurances can be given at this time that harassment of Canadian agriculture and food exports will cease under the Agreement.

Furthermore, improved definitions of injury and subsidy are not provided in the Agreement. Thus, the earlier concerns of hog producers, for example, regarding injury tests and subsidy definitions and calculations have not been met by this new

mechanism at this time. While the efforts to address this concern over the next five to seven years could be successful, the present laws still stand. In addition, Canada is unlikely to obtain exemption from U.S. Omnibus trade legislation which would instead strengthen these rules, thereby increasing the numbers and likelihood of success of U.S. trade actions.

The binational appeals panel could provide for a more expeditious appeals process. This would be an advantage over the status quo. However, the addition of an extraordinary second panel review process in cases of alleged bias or breach of procedure may negate some of the benefits of the more rapid appeals process. More fundamentally, in the absence of improved bilaterally agreed definitions of subsidy, injury and causality, the advantages of a binational panel review system appear minimal. The agreement to negotiate these new definitions and procedures is an area of great uncertainty.

III. ASSESSMENT

It must be acknowledged that the provisions of the Agreement will impact each agri-food commodity to a different extent, and many commodities are impacted by more than one provision. In light of this, the implications of the Agreement are assessed separately for each main commodity grouping. The commodity groupings reviewed are grains and oilseeds, livestock and red meats, dairy, poultry and eggs, fruit and vegetables and other crops.

The commodity by commodity analysis is followed by an examination of the impact of the Agreement on the whole agri-food sector. This section summarizes information presented in the commodity analysis to pinpoint a number of pressures on the food processing industries. This is followed by a section which highlights the implications for food processors.

The assessment now undertaken focuses on identifying and examining the implications of the Agreement for farmers, processors and governments. The provisions of the Agreement will have direct and indirect impacts on Ontario's agriculture and food sector. The elimination of tariffs, for example, will have a direct impact on prices

and indirect impacts through altering the effects of government policies already in place. Where possible the direct and indirect impacts on farm income are identified and estimated. The complex interaction of many factors at the processing level meant it was not possible to estimate the impact.

By identifying the possible impacts and providing farm income estimates, an indication of the adjustment pressure faced by the whole agri-food sector is obtained. The response to these adjustment pressures is in the hands of individual producers and processors, and the federal and provincial governments. It must be stressed that production and processing activities and practices may have to be changed. It should be remembered that producer-controlled marketing boards and governments could consider alternative approaches to marketing systems in response to the new trade policy environment. With appropriate adjustments it would be less likely that an income or wealth loss would translate to complete loss of markets. Yet, in practice, making these changes in marketing, processing and production practices may be difficult due to unfavourable market conditions, climate and technology constraints, difficulty in financing the required investments, and budgetary constraints faced by governments.

Grains and Oilseeds

Of all the commodity groups, grains and oilseeds received the most attention in the Agreement in terms of the number of provisions. However, this attention will not transform the sector since the problems of depressed world prices and global surpluses are beyond the control of either the U.S. or Canada. Both countries will remain large net-exporters of grains and oilseeds to offshore markets. Under the terms of the Agreement, bilateral trade in these products is not expected to increase in a substantial way. In general, opportunities for trade will continue to be largely confined to situations of temporary market shortfalls or where there are regional transport cost advantages.

Tariff elimination on grains and oilseeds provides opportunities and problems. The Ontario soybean crushing industry has welcomed the elimination of U.S. tariffs on soybean oil, which are currently 22.5 percent. Export opportunities to the U.S.

northeast are now foreseen as Ontario's soybean crushing industry is competitive with its U.S. counterparts. However, Ontario crushers remain seriously concerned about domestic competition from federally subsidized canola crushers in the Prairie provinces.

On the other side, Ontario's wheat producers are extremely sensitive to the prospect of tariff elimination. The Ontario Wheat Producers' Marketing Board is very concerned that the federal government's two-price wheat policy will be eliminated as a result of this development. Under the two-price policy, wheat sold domestically for human consumption receives a higher price than wheat sold in export markets. Wheat growers receive $7 per bushel for wheat sold on the domestic market, compared to around $3.50 per bushel on the world market. The Canadian wheat-using processors have made the argument that in a tariff-free environment the two-price wheat policy will place them at a competitive disadvantage with U.S. processors and imports of bakery products would grow enormously. The Government of Canada indicated in early November 1987 that it is indeed considering ending the two-price grain policy so that processors will not be disadvantaged by the elimination of tariffs. It was also implied that wheat growers would be compensated for the income loss.

If the two-price grain policy is ended, Canadian wheat growers would experience a significant loss of income. The Ministry has estimated that the direct cost to Canadian wheat growers would be over $231 million annually, with Ontario's growers alone losing approximately $30 million (2).

In relative terms, the loss of the two-price wheat policy is much more important to producers in Ontario than in Canada. The income loss to Ontario's growers represents around 25 percent of farm cash receipts for wheat, compared to an average of less than 8 percent for other Canadian growers. The Ontario Wheat Producers' Marketing Board estimates that the long-run impact of removing the two-price wheat regime for all Ontario wheat growers would approximate $45 million annually. This figure includes any adverse impacts for Ontario red wheat producers and any downward adjustment in the Ontario wheat economy as a whole.

The elimination of import controls for wheat, barley and oats as soon as support levels in both countries are equivalent, raises concerns about whether Canada will be able to maintain its quality grading system. Federal government assurances that end-use certificates will be used to prevent the grading system from being undermined appear to address this concern.

The Canadian commitment to end Western Grain Transportation Act subsidies on shipments of western grains and oilseeds to U.S. northwest ports will have no impact on Ontario's grain and oilseed producers. A possible concern is that the loss of these U.S. markets may increase the attractiveness of shipping western canola to Ontario since the federal transport subsidies on such shipments remain in place.

The undertakings not to impose quantitative restrictions on bilateral trade and to take account of each other's offshore export interests when using export subsidies are welcome. The tangible benefits to Canadian producers from these commitments are not certain as it is possible they may be no more than expressions of good intentions. A recent announcement by the U.S. that export subsidies under the Export Enhancement Program will be provided to shipments of wheat to China, India, Japan and Russia seems to support such a view.

The commitment to minimize technical barriers to trade may have implications for grain and oilseed producers in light of the other moves toward establishing a continental market for grains and oilseeds free of barriers to trade. The only specific outcome of the negotiations, beyond agreement to work towards harmonization, is acceptance of the term "canola oil" by the U.S. This will be of benefit to Canadian crushers who have had to market canola oil in the U.S. under the unappealling name of "low erucic acid rapeseed oil."

Livestock and Red Meat

Livestock and red meat producers have been strong supporters of a Canada-U.S. free trade deal. More secure and enhanced access to the U.S. is seen as being essential to the future development of this Canadian and Ontario industry. Emphasis has been

placed on securing access because Canadian livestock and red meat prices are already determined on a North American basis since current barriers to trade are relatively small.

The Agreement contains a number of provisions that appear to make access to the U.S. more secure and reduce barriers to trade. These provisions include tariff elimination, the exemption from each other's Meat Import Laws, minimizing technical barriers to trade, and the new dispute settlement process.

Tariffs in both Canada and the U.S. are low for livestock but high for a number of processed products; for example, the tariff on live cattle in Canada and the U.S. of 2.2 cents per kg (to be eliminated over five years). Live hogs are tariff free in both countries. On the processed side, the U.S. has a tariff on portion-controlled beef cuts of 10 percent (to be eliminated over 10 years). The effect of these tariffs has been to encourage processing in both countries, thereby reducing trade in beef and encouraging trade in live animals. The larger size of the U.S. market suggests the elimination of tariffs will be more advantageous on balance to Canadian packers who may expand operations to gain economies of scale.

The exemption from the threat of U.S. import controls on beef is expected to increase investment confidence in the Canadian meat packing industry. Beef packers in Canada will no longer face the threat of the U.S. border being closed, which would have disrupted and damaged the Canadian cattle and beef markets. In addition to these benefits, exemption from U.S. import controls may encourage the slaughter of more beef cattle in Canada. This would lead to an increase in beef exports and a decline in cattle shipments which are exempt from import controls under the respective Meat Import Acts.

Within Canada, more secure access to the U.S. may lead to the expansion of beef production and slaughter in the Prairie provinces. If this occurs, then the supply of western feeder animals for Ontario's feedlots will decline. Ontario feedlot operators may turn to provincial or U.S. sources for supplies of feeder cattle.

The commitment to minimize technical barriers is also seen as very beneficial to the red meat industry. In recent years concerns had been growing that the U.S. was turning to technical regulations as a means to restrict trade. Canada and the U.S. have agreed to an open border policy for livestock and meat. Agreement was reached to accept as equivalent each other's meat inspection systems. This means that Canadian exporters will not face the border inspection procedures that the U.S. planned to introduce.

Agreement was reached on the issue of animal health as well. The U.S. has agreed not to prohibit imports of livestock from disease-free regions of Canada. Furthermore, Canada has agreed to a simpler testing procedure to prevent bluetongue from being introduced through imports of U.S. cattle. Lastly, Canada has agreed to allow imports of U.S. live hogs for slaughter under still to be agreed procedures and conditions to prevent the introduction of pseudorabies. Although federal government officials have given assurances that the health of the Canadian livestock industry is not placed at risk, this is a concern of livestock producers.

The dispute settlement mechanism in the Agreement falls short of what the red meat industry was seeking. Canadian exporters are still subject to the vagaries of the U.S. countervail process. The binational panel that replaces judicial review in both countries will not reduce the cost of fighting countervail investigations. Having the binational panel review determinations of subsidy and injury is an improvement, but the failure to introduce more rigorous subsidy and injury tests is disappointing to industry groups. However, the industry has accepted the panel as the second best solution.

The provisions of the Agreement will likely benefit red meat producers in Ontario by approximately $18 million a year. This is based on an estimate contained in the earlier Ministry discussion paper on the implications of the Canada-U.S. trade negotiations (3). The assumptions that this estimate was based on are close to the articles of the Agreement that impact on the livestock and red meat sector. The benefits of the Agreement could be larger if new investments are made in the provincial red meat production and processing sector as a result of the perceived increase in security of access to the U.S. It must be remembered that to remain

competitive, domestic processors must adjust to changing market forces for red meats in North America. Furthermore, the shift to further processing of red meats, branded meats, and residue-free meats by the U.S. industry will pose its own challenges to the Canadian and Ontario industry.

Dairy

Both the Canadian dairy supply-management scheme and U.S. dairy price support scheme have been left virtually untouched by the Agreement. The Canadian system of production quotas, formula pricing, and import controls is retained along with the right to implement new import restrictions to support the supply-management system. The elimination of all tariffs raises the issue of whether dairy products now only protected by tariffs should be added to the Import Control List.

The two products of most concern are ice cream and yogurt. The Canadian tariffs on these products are 12.5 to 15.5 percent for ice cream and 15 percent for yogurt. If these products are not included in the Import Control List, Canadian and Ontario dairy farmers stand to lose income of at least $30 and $10 million, respectively. This is under the assumption that raw milk prices for the production of these products are lowered by 15 percent to keep Canadian processors of these products competitive with imports from the U.S.

If milk prices are not lowered, then dairy processors may be expected to lose a significant part of the ice cream and the expanding yogurt market to U.S. suppliers. Dairy producers would likewise face a cut in their allocation of market-sharing quota.

The agreement to ban the use of export subsidies on goods traded bilaterally is of concern to dairy producers. If export subsidies are defined to include producer financed assistance, this will adversely affect the dairy industry. Without producer assistance Canada will no longer be able to export cheddar cheese to the U.S. Furthermore, other trading partners well may consider producer assistance on exports of skim milk powder as an export subsidy. This would undermine Canada's expected negotiating position in the current round of multilateral trade negotiations.

Poultry and Eggs

Under the Agreement, the system of production quotas, formula pricing, and import controls for chicken, turkeys, eggs and hatching eggs and chicks is maintained. The Government of Canada has also retained the right to introduce new restrictions on imports in support of these programs.

Although the essential mechanisms for operating supply-management schemes are retained, a number of provisions in the Agreement are of great concern to poultry and egg producer groups. The elimination of tariffs and the increase in global import quotas may undermine the supply-management schemes.

The elimination of tariffs provides the opportunity for U.S. suppliers to greatly increase exports of further processed poultry products not currently included on the Import Control List. Further processed poultry products such as frozen dinners and other prepared meals are currently subject to Canadian tariffs of 17.5 percent. At the moment these further processed poultry products represent 1-2 percent of the market, but it is the further processed poultry market that is the fastest growing segment. Under the assumption that poultry prices would have to decline by 17.5 percent to retain this market, tariff elimination on further processed poultry products represents an income loss of $2 million. If the consumer demand for these products continues to grow, the lost income opportunity will grow as well.

Without access to poultry meat priced at the U.S. level, manufacturers of further processed poultry products would be at a significant disadvantage in a tariff-free environment. Imports of these further processed poultry products would supply this growing market. As a result, poultry production in Canada would not continue experiencing the strong growth of recent years.

With imports commanding a larger and larger share of the poultry market, the whole supply-management system for these commodities may be placed under pressure. This may endanger the future of the family farm in the poultry sector, given the radically different structure of farming in the U.S. in these commodities. Poultry

industry groups are calling for the Government of Canada to add poultry products currently only protected by tariffs, to the Import Control List to prevent the undermining of the supply-management scheme.

The expansion of global import quotas for chicken, turkeys and eggs is relatively small in percentage terms but not in value terms. This expansion of import quota represents a lost income opportunity of at least $17 million per year for Canadian producers and $6 million per year for Ontario growers. The willingness to negotiate increases in global import quotas raises the concern that in future trade negotiations the global import quotas may also be increased. Future expansions in the global import quota would further undermine the supply-management system.

As is the case for dairy producers, the possibility that producer-financed export assistance may be counted as an export subsidy and thereby not allowed on bilateral trade is a concern. This is of particular concern to egg producers who sell breaker eggs or egg products to the U.S. when supplies exceed domestic demand.

At first glance, the Agreement appears to have only a minor impact on the poultry and egg industry. More detailed examination of the provisions revealed that tariff elimination has very serious implications if steps are not taken to prevent the ongoing undermining of the supply-management schemes. Poultry and egg industry groups have called for further poultry and egg products to be added immediately to the Import Control List.

Fruit and Vegetables

Ontario's fruit and vegetable industries are perhaps the hardest hit of all the commodity groups by the Agreement. The elimination of tariffs and the dismantlement of the provincial wine pricing system may place many growers of tender fruit, and other fruit and vegetables and grapes in an extremely precarious position. It should be noted that certain fruit and vegetable growers have been presented with the opportunity to expand production to supply U.S. consumers as a result of the elimination of U.S. tariffs. Others may benefit from more secure access to the U.S. through the harmonization of technical regulations and the dispute settlement mechanism.

Canada and the U.S. both provide tariff protection to fresh and processed fruit and vegetables. On balance, the elimination of tariffs provides more benefits to the U.S. industry than Canada. It is likely that the already very large U.S. trade surplus in fruit and vegetables with Canada will increase. The climatic conditions that allow production through most of the year should continue to give U.S. growers a decided advantage over Canadian growers who are at the northern fringe of production areas.

The longer-term threat to the Canadian fruit and vegetable industry is recognized in the Agreement. A special provision allows for the reintroduction of tariffs on fresh fruit and vegetables during a 20 year period under specific conditions. This tariff snapback provision is designed to protect fresh fruit and vegetable growers in both countries from import surges. The specific conditions under which tariffs can be reintroduced are depressed prices and that the area under production has not been increasing. In addition, acreage increases attributed to land moving out of wine/ grape production are to be excluded from the tariff snapback acreage calculations for other fruit and vegetables. The federal government has billed this as assistance to grape growers, while in fact, it is only of benefit to growers of other fruit and vegetables.

A preliminary assessment by the Ministry of Agriculture and Food of the tariff snapback provisions indicates that these are very rigorous and will seldom be triggered (4). The Ministry analysis indicates that over the period 1985, 1986 and 1987 (first eight months) tariffs on 20 fruit and vegetables would have been triggered only 3 percent of the time. The analysis also suggested that effective implementation of the tariff snapback provision will require a federal government commitment to devote resources to the monitoring of fruit and vegetable industries in both countries not hitherto provided.

An important issue is whether the tariff snapback provision will be used to protect growers of produce for processing. As snapback provisions are not available for the processed fruit and vegetable products, processors could now be placed at a significant disadvantage if tariffs were snapbacked on fresh fruit and vegetable imports for processing. This suggests that the snapback provisions provide no protection for growers of fresh fruit and vegetables for processing.

The elimination of tariffs is expected to result in a broad price decline of close to 10 percent for Ontario growers of fruit and vegetables in total. The net income loss for fruit and vegetable growers will be close to $50 million. The loss of protection to Ontario grape growers provided through Provincial Liquor Board pricing and the restructuring and reorientation of the wine industry following the possible implementation of the Agreement is expected to result in an income loss of $15 million to Ontario grape growers. This cost represents roughly half the value of Ontario's grape crop in 1986.

An across-the-board price decline is expected as growers move away from crops such as peaches, strawberries, grapes, and tomatoes into apples, cole crops, potatoes and other crops. There will be some exceptions to the price declines resulting from U.S. tariff cuts. For example, onion prices are expected to strengthen as export opportunities improve.

The processors of fruit and vegetables are in a similar predicament as growers. The shorter harvesting seasons in Canada result in processing plants having higher fixed costs per unit. The loss of tariff protection is likely to speed up the rationalization which is already occurring as a result of declining consumer demand for canned goods.

The analytical focus on farm income losses does not include the long-term challenges of realigning crop production in the specialized fruit and vegetable production areas of Ontario. The impact of the Agreement is hardest and most difficult on one of Ontario's most sensitive land bases - the Niagara region. As a result, pressure would be placed on the province's land use policy.

Tariff elimination will likely result in shifts in production, but it is anticipated by the processing industry that by the end of 1988 the fruit and vegetable industry will have become a more competitive industry. The diversity of crops grown in southern Ontario is expected to decline as a result of this rationalization.

The general decline in fruit and vegetable prices is likely to lead to lower land values and related assets. This will both create financial problems for certain growers and opportunities for others to expand operations or enter the industry. The general decline in land values is expected, since alternative uses of land will also have become less profitable. It should be noted that the decline in asset values will be in addition to the decline in incomes.

The adjustment pressures faced by fruit and vegetable growers raise the issue of whether Canada can maintain more stringent health and quality standards that raise costs for Canadian growers, but may not protect Canadian consumers from imported products. Fruit and vegetable growers have long complained that they do not have the same access to fungicides and pesticides as U.S. growers have, which in turn reduces the costs of production of the imported products. In the legal text of the Agreement a general commitment is given to the harmonization of technical regulations and standards. Working groups have been established to implement this, so it remains very uncertain what degree of harmonization will be achieved.

Other Commodities

The other commodities covered in this section are floriculture and nursery, tobacco, dry beans, honey and sugar products. In general the Agreement neither presents great opportunities nor large problems for these commodities.

The floricultural and nursery stock industry has been expanding export shipments of potted plants and cut flowers to the U.S. in recent years. The elimination of tariffs will further stimulate both imports and exports with the U.S. On balance, tariff elimination will not have a detrimental effect on the floricultural industry. The expansion of exports to the U.S. and firsthand experience of U.S. trade remedy laws has meant securing access has become an important issue for this industry. The dispute settlement mechanism set out in the Agreement provides for only marginal improvement. Concerns that the industry will get caught in another countervail action cannot be dismissed.

Under the Agreement, tobacco growers still have the ability to request the establishment of a national supply-management scheme. The elimination of tariffs gives tobacco manufacturers an opportunity to import U.S. tobacco free of tariffs. However, if the current purchase arrangement between Ontario growers and the tobacco manufacturers holds firm, the impact of the Agreement will not be noticeable. Tobacco growers and manufacturers are concerned that the federal government's total ban on tobacco advertising in the Canadian media may encourage imports of U.S. tobacco products since U.S. publications sold in Canada will still contain advertisements.

Dry bean and honey producers are not expected to be significantly impacted by the Agreement. Ontario bean growers will continue to compete with Michigan growers in world markets. The Agreement is not expected to result in any expansion in the small level of two-way trade. The U.S. will continue to be the main outlet for honey produced by the Prairie provinces and Ontario's beekeepers will continue to serve the home market. However, the possibility remains that under the Agreement the U.S. may introduce import controls to protect the price support program for honey under Section 22. This would be very harmful to the Canadian industry since the U.S. is the main export market.

One of the articles of the Agreement is the U.S. commitment not to restrict imports of products containing less than 10 percent sugar by dry weight. This U.S. concession provides practically no benefits for Canadian sugar refiners or food processors. The only products that will benefit from this are some soup powders and sauce mixes. The value of trade in these products is small and is not expected to grow. The Agreement continues to leave Canadian sugar refiners and food processors exposed to a further tightening of import controls on products containing between 100 and 10 percent sweetener.

Overall Agri-Food Impact

In the commodity by commodity assessment of the Agreement, estimates of the impact on farm income were made. These estimates are brought together in Table 1 to provide an assessment of the overall impact on the agriculture and food sector.

These farm income estimates are an indication of the adjustment pressure faced by farmers and processors. The table reveals that the Agreement may result in an estimated income loss of $95 million to farmers. The small gains expected by red meat producers are overshadowed by the losses faced by grape growers, other fruit and vegetable growers, wheat producers, and the supply-managed poultry, egg and dairy producers.

Table 1: Farm Income Impacts of the Proposed Canada-U.S. Trade Agreement, Ontario

Commodity	Tariffs	Tariff Related Domestic Policy Changes	Import Controls	Technical Regulations	Dispute Settlement	Other Measures	Total
				- $ million -			
Grains and Oilseeds	Neutral	-30[a]	Possible Loss	Neutral	Neutral	-	-30
Livestock & Red Meats	Gain	-	Gain	Gain	Modest Gain	-	+18
Dairy	-10	-	None	None	Neutral	-	-10
Poultry & Eggs	-2	-	-6[b]	None	Neutral	-	-8
Fruit & Vegetables[c]	-50	-	None	Possible Gain	Neutral	-15[d]	-65
Other Commodities	Neutral	-	-	Neutral	Neutral	Neutral	Neutral
Total Impact							-95

[a] Impact of the loss of the two-price wheat policy.
[b] Impact of the increase in global import quotas.
[c] Includes grape growers.
[d] Impact of the change in provincial Liquor Board practices.

It is important to stress that the burden of implementing this Agreement would be extremely unevenly shared across commodity groups. The hardest hit are the grape and tender fruit growers who are largely located in the Niagara area. Employment impacts in this small area could be severe and are of concern considering the high level of seasonal labour and women employed in these industries. The red meat producers who stand to gain from the deal are located across the whole province.

This loss of $95 million is a preliminary estimate. The losses could be smaller or larger if red meat producers realize greater gains than expected and if the losses of fruit and vegetable growers are smaller as a result of capitalizing on export opportunities. The income loss of farmers could also be reduced if the federal government compensates producers for the loss of income as is a possibility in the case of the two-price grains policy. There is nothing in the Agreement to prevent either the federal or provincial governments from providing this compensation. In turn, it should also be noted that the income loss could be higher if imported further processed poultry products capture a larger share of the market or if the fruit and vegetable industry declines significantly.

It may appear that Ontario's consumers are the main beneficiaries of the agriculturally related provisions of the Agreement through lower retail prices for food and beverages. Yet, the size of these benefits will be relatively small. It should be anticipated that the declines in food prices may be imperceptible to consumers. This reflects the view of the Consumers Association of Canada who maintain that the federal government has over estimated the benefits of the Agreement for consumers.

The impact analysis of the Agreement has been focused at the farm level. (This should not be interpreted as a lack of concern for food processors, but rather as recognition of the complex array of factors that shape the processing industries.) The farm level impact approach was taken to avoid the problem of having to decide which provisions of the Agreement would be borne solely by, or shared with the food and beverage processors. Instead, for this preliminary assessment, it has been assumed that the largest impact of the Agreement would occur at the farm level, even though the long-run climate for investment in food processing could also be adversely affected. This assumption was made to avoid the double counting of costs

and benefits. It also reflects the fact that the linkages between farmers and processors have been recognized by the federal government (e.g., the elimination of tariffs on both raw and processed agricultural commodities). Furthermore, it appears a strong likelihood that the federal two-price wheat policy will be eliminated to maintain the competitiveness of Canada's wheat-using food processors.

Food Processing Overview

Even though the food processing sector was included in the earlier analysis of the agri-food sector, it is felt that the implications of the Agreement for the food processors should be further highlighted.

The Agreement is expected to cause many food processors to make changes. Tariff elimination, harmonization of technical regulations and the other provisions will all have an impact. While it is relatively easier to gauge the direction and broad scope of adjustments for primary commodity groups, the impact for individual food processors is more difficult to judge. This difficulty stems from the enormous variety of products manufactured, each with an array of interacting factors determining their competitive position in the market. (The success of branded products indicates that more than the price of product is important to the consumer - name recognition, quality, service, unique taste, conspicuous consumption - all play a role in consumer preferences.)

In the case of products that compete with imports in the domestic market, tariff elimination will exert downward pressure on both the prices of the processed products and raw agricultural commodities. The impact on these food processors will be minimal because cost declines and revenue declines will be similar.

The Ontario Food Processors' Association and the Grocery Products Manufacturing Council have indicated that in general food processors can compete if they have access to raw agricultural commodities priced at the same level as their U.S. counterparts.

If the price of raw agricultural commodities does not decline, but tariff elimination leads to lower processed food prices, then food processors will be caught in a cost/ price squeeze. Agricultural policies such as the two-price wheat policy and marketing boards with price-setting powers may have to be altered or other import controls introduced to ensure that food processors are not placed at a competitive disadvantage. For example, the elimination of Canadian tariffs on products otherwise not restricted, such as yogurt, ice cream and further poultry products places food processors at a disadvantage since raw commodity prices are higher in Canada. As is the position of farm groups, processors of these commodities would like these products added to the Import Control List. Another example is the call by wheat-using processors for the elimination of the two-price wheat policy so that processors can remain competitive in a tariff-free environment. The Government of Canada has indicated that it will take this action.

On the other side, export opportunities to the U.S. for food processors may be opened up through the elimination of U.S. tariffs. For example, certain baked goods and frozen vegetable processors may benefit from tariff-free access to the U.S. If this is the case, then new investments may be made so that these opportunities can be developed. Canadian meat packers may make additional investments in response to the perceived improvement in security of access to the U.S. If this occurs, Canada's trade surplus with the U.S. in beef and pork may increase.

There are a number of other aspects of the Agreement that may have significant implications for food processors. For example, the special tariff snapback provisions for fresh fruit and vegetables, the provisions covering rules of origin for goods, technical regulations and standards for food, and investment all warrant careful study. Processors have expressed concerns that they will be placed at a competitive disadvantage if tariffs are snapped-back on raw fruit and vegetables (Article 702) while the processed product can be imported free of tariff duties. Article 301 indicates that adding water to a product is not sufficient to transform the product into a domestic good. This provision may limit the export opportunities of fruit juice processors. Another provision that needs monitoring is the agreement by Canada and the U.S. to review container sizes, including can sizes (Article 708.1, Schedule 9).

Even if steps are taken to ensure processors have access to competitively priced raw agricultural commodities, the elimination of tariffs may still place these firms under substantial pressures to adjust. Smaller plant sizes, higher costs (e.g. shorter processing periods due to the shorter harvesting season), lower labour productivity and higher tax rates that currently exist in Canada now place some of these firms at a competitive disadvantage (2).

It must be acknowledged that ongoing technological developments, shifts in consumer demand, fluctuations in interest rates, and changes in exchange rates will have a stronger influence on the future state of the food processing industry than the Agreement. These ongoing changes in the industry may, in turn, be accelerated by the Agreement to the point where these become unmanageable. If this is the case, the Agreement may have a very damaging and unintended impact on the processing industry which would feed back to the agriculture industry.

IV. ADJUSTMENT POLICY CONSIDERATIONS

In addition to the ongoing dynamics in the agriculture, food and beverage sectors, the Canada-U.S. Free Trade Agreement will add to pressures to adjust toward a more competitive and market driven structure. Adjustment is recognized as being an ongoing process and the trade related changes will likely be difficult to distinguish from the restructuring continuously facing many producers and processors. Still, these new pressures, however slight or critical, could require substantial changes to government programs that address the adjustment needs of Canadian and Ontario agriculture and food industries.

It has not become clear in either the current public debate or through federal-provincial consultations, what role the federal government will play in providing funds for trade related adjustments. These and other questions must be addressed so that the Ontario Ministry of Agriculture and Food is in a position to analyze the need for assistance to Ontario's agriculture, food and beverage sector.

In relation to the Agreement, five key areas have been identified as crucial to Ontario's position toward adjustment assistance in the agriculture food and beverage sectors assuming the Agreement is implemented. These are:

1. **Compatibility** - there does not appear to be any restriction in the Agreement on governments to provide adjustment assistance. However, industries benefiting from adjustment programs will continue to face the rigors of U.S. trade laws when exporting to U.S. markets. In other words, these assistance programs may be found to be countervailable subsidies by the U.S. Accordingly, adjustment assistance programs should be compatible with the spirit and provisions of the Agreement, since assistance programs could effect more harm than good for industries exporting to the U.S.

2. **Phasing Mechanisms** - all tariffs and non-tariff barriers are not alike. The removal of tariffs and non-tariff barriers should be sensitive to the structure of protection in individual industries. It is understood that there is currently little scope to renegotiate transition periods and reductions for agriculture and food tariffs and quantitative restrictions. However, bilateral negotiations on technical regulations will continue under new and enhanced guidelines in the Agreement. These discussions should be monitored closely by the Government of Ontario. In general, adjustment programs should be tailored to fit individual industry transition periods.

3. **Temporary Compensation** - to assist the farmers and processors during the period when adjustments are being made in order to be viable in the new trading environment. This type of assistance would focus on steps being taken to upgrade technology and increase the size of operations.

4. **Continued Compensation** - provision must be made in the future bilateral discussions on subsidies to allow for government assistance in ongoing adjustments. For example, these measures would include compensation to Ontario fruit and vegetable growers for the climatic disadvantage they suffer vis-a-vis their U.S. counterparts.

5. **Out-goers Package** - compensation for those firms and producers who cannot adjust successfully to a more competitive trade and market environment. Compensation need not consist entirely of payoff and early retirement programs. Alternative enterprises may be feasibly adopted by producers. These

could be promoted through a combination of information and financial assistance. Where industries are threatened, the role of the federal government in providing financial compensation should be established. Identification of industries which would be unable to effectively adjust to a more competitive market environment must begin immediately. Assistance to these industries in the areas described in 2 to 4 above may preclude the need for out-goers programs. An out-goers policy should be a last resort.

These five points are made to initiate discussion of how Ontario's adjustment assistance policy is developed for its agriculture and food industries. The ongoing industry consultations carried out by the Ministry of Agriculture and Food should assist in identifying the areas where any or all of the above measures may be required.

V. SUMMARY AND CONCLUSIONS

The agriculture provisions of the Agreement comprise a fairly limited but negative trade package for Ontario agriculture and food industries. Many domestic policies and programs will remain virtually intact following the implementation of the Agreement. However, there are some highly regionalized industries, particularly in the horticulture sector, that will be seriously affected by freer trade with the U.S.

The elimination of agriculture and food tariffs will represent the most significant source of change to the agricultural trading environment. Both producers and processors will likely face increased competition from U.S. products in domestic markets during the gradual reduction of tariffs. For Ontario fruit and vegetable producers, the elimination of tariffs represents an approximate loss in income of $50 million a year. This is by far the largest cost to be borne by any commodity group as a result of the implementation of the Agreement. However, the groups most seriously threatened by the Agreement are the grape growers and wineries. Grape growers stand to lose $15 million a year, which represents half the value of Ontario's grape crop in 1986. The concentration of tender fruit production and grape growing in Niagara places significant adjustment pressures on this small region. Ontario agriculture and food industries combined stand to lose on balance an estimated $95 million a year as a result of freer trade with the U.S.

The only commodity grouping that is expected to gain from the Agreement is livestock and red meat producers and processors. The elimination of tariffs, exemption from the U.S. Meat Import Act, and reduction in trade barriers caused by technical regulations, are all seen as beneficial. However, the dispute settlement that still leaves the red meat industry exposed to U.S. countervail falls well short of what the industry had requested.

Numerous questions regarding the implementation of the Agreement remain unanswered by the federal government. Many issues surrounding the workability of the snapback mechanism have been raised and yet a clear understanding of the speed in which it will operate has not been possible. Also, the question of producer compensation following the possible elimination of the two-price wheat policy must be addressed. The mechanics of implementing Canada's right to put various poultry and dairy processed products on the Import Control List are not at this point well understood.

The ability of agriculture and food industries to make the necessary adjustments to freer trade will depend largely on the ability of the federal government to make appropriate changes to domestic policies and to implement various safeguards provided for in the Agreement. More specifically the federal government would be required to:

1. Ensure that the tariff snapback mechanism is as effective and timely as possible. This would require a commitment to devote resources to monitoring fruit and vegetable imports, not hitherto provided through the operation of the current fast-track surtax.

2. Ensure that adequate and proportional compensation be provided to all Canadian wheat producers in the event that the two-price wheat policy is eliminated.

3. Ensure that further processed poultry products and ice cream and yogurt receive expeditious recourse to the Import Control List prior to any onslaught of injurious imports of U.S. products.

4. Ensure that when implementing the commitment to reduce technical barriers to trade, Canada's quality grading regulations and high standards for plant, animal and human health are not undermined.

5. The issue of adjustment assistance needs to be clarified. Trade related adjustments will not always be directly related to the removal of easily identified border measures. The competitive balance in many domestic industries will be greatly altered with adjustment pressure bearing down on industries, during and long after the transition period. It is important for the federal government to clearly indicate its commitment to providing adjustment assistance.

REFERENCES

(1) "The Canada-U.S. Free Trade Agreement", December 10, 1987.

(2) Ontario Ministry of Agriculture and Food, "Canada-U.S. Trade Negotiations: Implications for the Canadian Wheat-Using Industries", August 1987.

(3) Ontario Ministry of Agriculture and Food, "Canada-U.S. Trade Negotiations: Implications for Ontario's Agriculture, Food and Beverage Sector", February 1987.

(4) Ontario Ministry of Agriculture and Food, "Assessment of the Proposed Tariff Snapback Provisions for Fresh Fruit and Vegetables", December 1987.

Canadian Agricultural Tariffs Qualifying for Immediate Elimination on January 1, 1989

Item	Article Description	Base Rate
0201.20.00	Cattle	2.21¢/kg
	Pigs:	
0210.11.00	Hams, shoulders and cuts thereof, with bone in	2.21¢/kg
0210.12.00	Bellies (streaky) and cuts thereof	2.21¢/kg
0210.19.90	Other	2.21¢/kg
0210.90.90	Other other	2.21¢/kg
1214.10.00	Lucerne (alfalfa) meal and pellets	10%
1214.90.10	Grass meal	10%
	Vegetable saps and extracts:	
1302.11.00	Opium	$11.02/kg
1502.00.00	Fats of cattle, sheep or goats	4%
1601.00.10	Sausages and similar products in air-tight containers	15%
1601.00.91	Pork sausages	1.32¢/kg
1601.00.99	Other	2.21¢/kg
	Other prepared meat:	
	Pigs:	
1602.49.91	Other in air-tight containers	15%
	Cattle:	
1602.50.91	Other in air-tight containers	15%
1602.50.99	Other	2.21¢/kg
	Yeasts:	
	Active Yeasts:	
2102.10.10	Moisture content 15% or more, excluding liquid yeast	12.5%
2101.10.20	Moisture content less than 15% liquid yeast	10%
2208.30.00	Whiskies	7.68¢/litre of absolute ethyl alcohol
2208.40.10	Rum	38.38¢/litre of absolute ethyl alcohol
2208.40.20	Tafia	19.19¢/litre of absolute ethyl alcohol
	Residues of starch manufacture:	
2303.20.10	Dried beet-pulp	4%
	Animal foods:	
	Other:	
2309.90.91	Complete feeds and feed supplements, in concentrates containing dairy products	5%
2309.90.99	Other	12.5%

U.S. Agricultural Tariffs Qualifying for Immediate Elimination on January 1, 1989

Item	Article Description	Base Rate
	Asses:	
0101.20.20	Other	15%
	Other live animals:	
0106.00.10	Birds	4%
0106.00.30	Foxes	7.5%
	Other meat and edible meat offal, fresh, chilled or frozen:	
0208.10.00	Rabbits or Hares	10%
	Meat and edible meat offal, salted, in brine, dried or smoked:	
0210.90.40	Other other	5%
0210.20.00	Cattle	10%
0502.10.00	Pig, hog or boar bristles and hair and waste thereof	1.7¢/kg
	Bird parts:	
0505.90.00	Other	5%
0509.00.00	Natural sponges of animal origin	3%
	Animal Products not elsewhere specified:	
0511.99.40	Other other other	2.5%
0602.91.00	Mushroom spawn	2.2¢/kg
	Pistachios:	
0802.50.20	In shell	1¢/kg
0802.50.40	Shelled	2.2¢/kg
	Pignolia:	
0802.90.20	In shell	1.5¢/kg
0802.90.25	Shell	2¢/kg
	Other Nuts:	
0802.90.80	In shell	2.9¢/kg
0802.90.90	Shell	11¢/kg

U.S. Agricultural Tariffs Qualifying for Immediate Elimination on January 1, 1989

Item	Article Description	Base Rate
	Plaintains:	
0803.00.40	Dried	3%
	Pineapples:	
	Not reduced in size:	
0804.30.40	In crates or other packages	1.31¢/kg
0804.30.60	Reduced in size	0.55¢/kg
	Fruits, fresh or dried:	
0805.30.40	Limes	2.2¢/kg
	Fruits, dried:	
0813.10.00	Apricots	2.2¢/kg
	Other fruit:	
	Berries:	
0813.40.20	Other	2.2¢/kg
0813.40.40	Peaches	2.2¢/kg
	Peel of citrus fruit or melon:	
0814.00.90	Other	2¢/kg
	Containers and wrappings of tea which are the product of Canada	The rates applicable imported empty
	Fruits of the genus Capsicum:	
0904.20.60	Other, not ground	5.5¢/kg
	Husked (brown) rice:	
1006.20.20	Basmati	1.3¢/kg
1008.20.00	Millet	0.7¢/kg
1008.90.00	Other cereals (including wild rice)	2.5%.
1207.91.00	Poppy seeds	0.13¢/kg
1209.21.00	Alfalfa (lucerne) seed	3.3¢/kg
	Clover (Trifolium spp.) seed:	
1209.22.20	White and ladino	3.5¢/kg
1209.24.00	Kentucky blue grass (Poa pratensis L.) seed	2.75¢/kg
1209.25.00	Rye grass (Lolium multiflorium Lam., Lolium perenne L.) seed	2.2¢/kg

U.S. Agricultural Tariffs Qualifying for Immediate Elimination
on January 1, 1989

Item	Article Description	Base Rate
1210.10.00	Hop cones, neither ground nor powdered nor in the form of pellets	16.5¢/kg
1210.20.00	Hop cones, ground, powdered or in the form of pellets; lupulin	16.5¢/kg
1211.90.60	Tonka beans	6.6¢/kg
	Pigs:	
1214.10.00	Alfalfa (lucerne) meal and pellets	3%
	Ginseng:	
1302.19.40	Other	1.5%
1302.31.00	Agar-agar	2.6%.
	Vegetable plaiting materials:	
	Other:	
1401.90.20	Willow (osier)	6.8%
	Vegetable materials used primarily in brooms and brushes:	
1403.90.40	Other	5%
1502.00.00	Fats of cattle, sheep or goats	0.95¢/kg
	Olive oil:	
	Virgin:	
1509.10.20	Weighing with the immediate container under 18 kg	8.4¢/kg contents contain
	Other:	
1509.90.20	Weighing with the immediate container under 18 kg	8.4¢/kg contents contain
	Olive oil blends:	
	Other:	
1510.00.40	Weighing with the immediate container under 18 kg	8.4¢/kg contents contain
1520.10.00	Glycerol (glycerine), crude; glycerol waters and glycerol lyes	0.4¢/kg
1520.90.00	Other, including synthetic glycerol	1.1¢/kg

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Item	Article Description	Base Rate
	Sausages and similar products:	
1601.00.20	Pork	1.3¢/kg
	Other:	
1601.00.40	Beef in airtight containers	7.5%
1601.00.60	Other	5%
	Other prepared meat:	
	Of Pigs:	
	Other, including mixtures:	
1602.49.10	Offal	5%
	Other:	
	Not containing cereals or vegetables:	
1602.49.20	Boned, cooked and packed in airtight containers	6.6¢/kg
	Other:	
1602.49.60	Mixtures of pork and beef	5%
	Of cattle:	
1602.50.05	Offal	5%
	Other:	
	Not containing cereals or vegetables:	
1602.50.09	Cured or pickled	10%
	Other:	
	In airtight containers:	
1602.50.10	Corned beef	3%
1602.50.20	Other	3%
1602.50.60	Other	4%
	Cocoa paste:	
1803.20.00	Wholly or partly defatted	0.82¢/kg
	Yeasts:	
2102.10.00	Active yeasts	10%
	Inactive yeasts:	
2102.20.20	Yeasts (except brewer's yeast)	10%
2102.20.60	Other	5%
	Whiskies:	
2208.30.30	Irish and Scotch	5.3¢/pf.litre
2208.30.60	Other	6.6¢/pf.litre
2208.40.00	Rum and tafia	37¢/pf.litre

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Item	Article Description	Base Rate
	Bran, sharps (middlings) and other residues:	
2302.50.00	Of leguminous plants	3%
2303.10.00	Residues of starch manufacture and similar residues	3%
2305.00.00	Oilcake and other solid residues, extracted from peanut oil	0.7¢/kg
	Oilcake and other solid residues, extracted from vegetable fats or oils:	
2306.30.00	Of sunflower seeds	0.7¢/kg
2306.50.00	Of coconut or copra	0.7¢/kg
2306.60.00	Of palm nuts or kernels	0.7¢/kg
2306.90.00	Other	0.7¢/kg
	Vegetable materials and vegetable waste, of kind used in animal feeding, n.e.s.:	
2308.10.00	Acorns and horse-chestnuts	3%
2308.90.60	Other Other	3%
	Preparations used in animal feeding:	
	Other Other:	
2309.90.30	Animal feeds containing milk or milk derivatives	7.5%
2309.90.90	Other Other	3%
2507.00.00	Kaolin and other kaolinic clays, whether or not calcined .	32.5¢/kg